Ceylon Petroleum Storage Terminals Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Petroleum Storage Terminals Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i)	Fully depreciated assets, comprising 15,148 items of approximate cost of Rs. 7,727.6 million have been continuously used by the Company without being reassessed the useful economic lifetime of those assets as per the LKAS 16. Further, the Company had not established a proper policy to revalue its assets since the inception of the Company in 2003.	Since the initial valuation of CPSTL properties in year 2003 the Company has not carried out any valuation at properties at Kolonnawa & Muthurajawela main Oil Terminals, Offshore oil facilities and Island wide 11 Bulk Depots due to high cost involved, complexities due to large volume of industry related assets belonging to the company. Board of Directors approval have been granted to carry out the revaluation of CPSTL Property, Plant and Equipment at Kolonnawa & Muthurajawela main Oil Terminals, Offshore Oil Facilities and Island wide 11 Bulk Depots at the meeting held on 11th August, 2021 (BP # 07/214). Management is planning to complete this task and restate the value of fixed assets to bring up to its market conditions during the F/Y 2022.	The Company should comply with the requirement of the Standards.
(ii)	The Company had not recognized the right of use assets relating to 6 motor vehicles acquired in the year 2017 on operating lease basis and corresponding lease liability in financial statements in the year under review in accordance with the paragraph 47 of SLFRS 16.	CPSTL does not entered into contractual obligation with any leasing company to lease motor vehicles and transfer ownership to CPSTL at the end of the contract. The 06 no's motor vehicles hired from M/s. Rajagiriya Tours (Pvt.) Ltd are under the operating lease agreement where ownership of these vehicles does not transfer to company at the end of the contract period.	The Company should comply with the requirement of the Standards.

(iii) According to the notes to the financial statements of the Company for the year under review, it was stated that the erroneously recorded interest income and pipe line income in previous years had been corrected retrospectively. However, the error in overcharging of the interest component of the throughput income from CPC and LIOC amounting to Rs. 579,805,642 (inclusive of VAT and NBT), and pipe line income amounting to Rs. 100,220,058, which were related to years prior to 2019, had been shown as "written off expense" under comparative information of the previous year instead of being adjusted the cumulative effects in the statement of changes in equity in accordance with paragraph 42 of LKAS 08.	According to paragraph no. 43 of LKAS 08, a prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. And; According to paragraph no. 47 of LKAS 08, when it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods. Based on the above two scenarios. If it is impracticable to determine either the period-specific effects or the cumulative effect of the error, in accordance with paragraph 45, the entity shall restate the comparative information prospectively from the earliest date practicable. Further, it disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. As explain above, prior year "written off expenses" in compliance with the paragraph 43 to 48 of the LKAS 08.	The Company should comply with the requirement of the Standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(i) According to the financial statements for the year 2019, the retention money relating to the construction of a fuel tank which had been completed in 2019 amounted to Rs. 31,446,395 had not been included in the cost of the fuel	Although there are internal controls in place to ensure that all entries are embedded to draft financials. Due to the high volume of transactions, the omission was an inadvertently oversight by finance when preparation of financial	All the assets should be capitalized in terms of related accounting standards.

	tanks. As a result, the value of fuel tanks had been understated by that amount, and the amount of depreciation had also been understated in the year 2019. Further, the accumulated depreciation for the year under review had understated and as a result, the net amount of the assets had been overstated.	statements. However, this had been corrected subsequently in the F/Y 2020. The management and finance team will take every step to ensure that all liabilities will be properly accounted in the future when preparation of annual financial statements.	
(ii)	Overcharged pipe line income amounting to Rs. 26,789,209 relating to the previous year had been erroneously included under the overcharged pipe line income for the year under review. As a result, the profit for the year under review had been understated by that amount. Even though the overcharged pipe line income for the previous year (2019) amounting to Rs. 103,920,895 had been written off in the previous year, the actual overcharged pipe line income for that year (2019) was amounting to Rs. 30,490,045. As a result, profit of the previous year had been understated by Rs. 73,430,849.	As explain in paragraph 47 of the LKAS 08, when it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods.	All the assets should be capitalized in terms of related accounting standards.
(iii)	Writing back of long outstanding payable balances totaling Rs. 59,510,180 had been set off against the written off amount of the erroneously overcharged pipe line income in the year under review. As a result, other operating income and other operating expenses had been understated by similar amount in the year under review.	The net effect on write off/ write back has been adjusted in the financial statements without showing two separate line items for better presentation. Which does not mislead the readers of financial statements and in comply with LKAS 01.	All the assets should be capitalized in terms of related accounting standards.

(iv) According to the financial statements of the Company, the balance of the foreign currency denominated bank accounts as at the end of the year under review was Rs. 338,378,355. However, as per the calculations done in audit based on the balance confirmation provided by Bank of Ceylon, the balance as at the end of the year under review was Rs. 410,613,825. Accordingly, an unexplained difference of Rs. 72,235,470 between those two figures was observed. Further, a USD denominated saving account in Bank of Ceylon is remained unchanged for over several years.	Due to oversight, USD currency exchange rate of Rs. 157.56 have been used instead of Rs. 191.196 when preparation of financial statements 31st December 2020. The omission was inadvertently oversight when preparation of draft financial statements by the finance team and internal audit review.	Appropriate actions should be taken to record all the omitted balances.

1.5.3 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(i) According to the financial statements provided to the audit, income tax amount payable to Inland Revenue Department (IRD) as at the end of the year under review was Rs. 383,213,359. Details relating to the composition of such income tax payable balance were not made available to audit. However, as per the balance confirmation received from IRD, the net correspondence amount to be settled (payable and receivable) to IRD was to Rs. 541,461,671. Accordingly, an un-reconciled difference of Rs. 158,248,312 was observed between those two balances.	When compared to Inland Revenue Department (IRD) computerized database system balances with CPSTL general ledger balances, we assume that these differences may have occurred due to data entry errors, time delay when update of self-assessment notices/ tax payments/ delay in update of final tax returns and IRD system may include tax assessments raised in previous years which are pending to be resolved due to appeal process. Furthermore, for the purpose of preparation of reconciliation between IRD balances with ledger balances we have requested detail breakdown from IRD which is still pending.	Appropriate actions should be taken to rectify these differences with IRD.

(ii)	According to the financial statements for the year 2019 the provision for income tax expenses was Rs. 1,045,291,808 whereas, the actual tax payment for that year was only Rs. 1,005,993,161. Even though the under provision made for the income tax for the previous year amounted to Rs. 39,298,647 should have been adjusted in the year under review, the amount adjusted in this year was only Rs. 36,441,226. As a result, an unadjusted difference of income tax provision amounted to Rs. 2,857,421 was observed in the year under review.	Agreed as over provision in year 2019 Rs. 2,857,421 to be adjusted.	Appropriate actions should be taken to rectify the issue.
(iii)	There was a difference amounted to Rs. 66,931,834 between the amount shown in the fixed assets register provided to audit and the net book value (NBV) of property, plant & equipment (Freehold Building and Motor Vehicles), which had been considered in accounting which are not entitled for capital allowances.	The new Deferred Tax liability to be increased by Rs. 16,063,640 and the omission was inadvertently missed out by finance team during the preparation of financial statements for the year 2020. This will be rectified in following year.	Appropriate actions should be taken to rectify the issue.
(iv)	According to the financial statement for the year under review, VAT amount payable to IRD for the year under review was Rs. 53,278,154. However, according to the IRD records, net amount receivable (receivable and payable) to IRD was Rs. 138,747,556. Accordingly, an un-reconciled difference of Rs. 85,469,402 between those two balances was observed.	The Value Added Tax (VAT) amount mentioned in the financial statements as at 31 December 2020 represent the VAT liability for December 2020 which was due to be paid on or before the 20 January 2021. Furthermore, preparation of reconciliation between IRD balance and the ledger balance is not possible due to IRD reply is pending on official requests made by us requesting detail breakdown for balance of Rs. 138,747,556 as reported by you.	Appropriate actions should be taken to rectify these differences with IRD.

(v) As per the Company records, revenue for the period from 01 October to 31 December 2020 was Rs. 3,140,630,614. However, as per the VAT return submitted to the IRD, the revenue amount considered for VAT calculation was only Rs. 3,120,446,154. Therefore, an un-reconciled difference between those two records amounted to Rs. 20,184,460 was observed.	There is a mistake when disclosing VAT liable turnover figure in the VAT Return for the quarter ended 31st December 2020 whereas there is no change in VAT liability. Actions will be taken to amend the VAT return accordingly.	Appropriate actions should be taken to rectify the issue.
(vi) Even though, as per the balance confirmation received from IRD, the PAYE balance payable to IRD as at the end of the year under review was Rs. 109,449,724, there was no any PAYE payable amount to IRD as per the financial statement of the Company for the year under review. Accordingly, an un-reconciled difference of Rs. 109,449,724 between those two records was observed.	According to our records there was no pending liability on PAYE as at 31st Dec. 2020. Company has ceased payment of PAYE tax for on behalf of employees' w.e.f. Jan, 2020 with the change of law. Furthermore, for the purpose of preparation of reconciliation between IRD balances with ledger balances, we have requested detail breakdown from IRD which is still pending.	Appropriate actions should be taken to clear the differences with IRD.
(vii) According to the financial statement of the Company for the year under review, the amount receivable from IRD as at the end of the year was Rs. 24,838,931 whereas the amount of WHT payable to IRD as per the balance confirmation received from IRD, was Rs. 31,499,999. Accordingly, an un-reconciled difference of Rs. 56,338,930 between those two records was observed.	The amount mentioned With Holding Tax receivable in financial statements represent the amounts deducted by withholding agents as the specified fees and interest paid to the company. This tax credits will be claimed against the income tax payable when submission of income tax return. The WHT amount payable according to the IRD record of Rs. 31,499,999 was paid on 28.03.2019 (cheque No. 069094) and IRD made data entry error when updating the system. A request has been sent to IRD to correct the above mistake.	Appropriate actions should be taken to rectify these differences with IRD.

1.5.4 Accounts Receivable and Payable

(a) Receivables

Audit Issue	Management Comment	Recommendation
Other receivable amounting to Rs. 7.2 million was remained unrecovered for over 5 years as at the end of the year under review. However, sufficient confirmation regarding the recoverability of that amount was not made available to audit.	Most of these balances are carried forward from prior to SAP ERP implementation in year 2010. The likelihood of recoverability of these balances are very remote. Audit & Management Committee recommended write off these long outstanding balance receivable with the prior approval of Board of Directors.	Appropriate actions should be taken to recover long outstanding receivable balances.

(b) Payables

Audit Issue	Management Comment	Recommendation
(i) There were debit balances in 7 trade and other payable accounts amounting to Rs. 2,675,710 as at the end of the year under review, which had included 2 debit balances totaling Rs. 178,610 remaining for over 5 years. Further, there were 5 debit balances totaling Rs. 2,497,100 remained unsettled ranging from 1 to 5 years. However, the Company had made some subsequent transactions with vendors without being settled their debit balances. Therefore, existence and accuracy of those debit balances were questionable in audit.	Most of the debit balances in Vendor accounts are reflected due to reversal of erroneous invoice verifications in SAP (MIRO) without clearing the balances.	Appropriate actions should be taken to get all reconciled balances cleared.
(ii) There were 21 payable balances amounting to Rs. 15,748,981 outstanding for over 5 years and 40 payable balances amounting to Rs. 56,566,358 outstanding from 1 year to 5 years as at	There are certain vendor liabilities lying as long outstanding payables which are no longer required to be paid by the company. The Sri Lanka Financial Reporting Standards (SLFRS 9), or IFRS-9, provides a list of criteria that must be met	Appropriate actions should be taken to get all reconciled balances cleared.

the end of the year under review. However, the management of the CPSTL had not taken proper actions to settle them. Accordingly, existence and accuracy of those balances were in doubt.	before any account payable can be written off.	
(iii) According to the Board decision 31/210 dated 08 April 2021, the Company had written back some long outstanding payable balances amounting to Rs. 59,510,180 in the year under review. However, evidences relating to the basis of written back were not made available to audit.	According to these guidelines, financial liabilities should only be derecognized by the company when the obligation to pay is expired, canceled, or discharged. As such, they are not written off based on the time frame. Therefore, after completing the due diligence for each and every vendor account liability. These balances have been written back subject to Audit & Management Committee recommendations and approval of the Board of Directors.	Appropriate actions should be taken to get all reconciled balances cleared.

1.5.5 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
(i) According to the records of the Company, the amounts receivable from and payable to CPC had been amounting to Rs. 7,308.85 million and Rs. 349.92 million respectively. However, according to the records maintained by the CPC, the corresponding amounts payable to and receivable from the Company were amounting to Rs. 6,565.79 million and Rs. 600.75 million respectively. Accordingly, it was observed an un-reconciled net difference of Rs. 993.89 million, which had comprised amounting to Rs. 743.06 million and Rs. 250.83 million of intercompany receivable and	Rs. 637,043,541 payable on loan interest receivable. CPC has taken necessary action to obtain the board approval for same and waiting for settlement of dues. Rs. 53,548,548 unaccounted SAP maintenance charges. CPC has taken necessary action to obtain the board approval for same and waiting for settlement of dues. Rs. 103,920,894 pipeline charges. CPSTL has taken AMC approval and CPSTL board approval to write off these receivables due from CPC as at 31st December 2020. Rs.156,389,459 Remaining unresolved balances.	Appropriate actions should be taken to settle all unreconciled balances.

	payable balances respectively between two entities. However, the CPC had decided by its Board Decision taken on 22 July 2021, to pay disputed outstanding loan interest amounting to Rs. 637.04 million to CPSTL.	Actions have been taken to resolve the balance outstanding disputes with CPC during the year 2021.	
(ii)	According to the records of the Company, the amount receivable from LIOC were Rs. 655.64 million, and as per the confirmation received from LIOC the amount payable to the Company were Rs. 695.82 million. Accordingly, an un-reconciled difference of Rs. 40.18 million in the intercompany balance between two entities as at the end of the year under review was observed.	Rs. 43,458,458 Refund of loan interest. CPSTL AMC has decided to write off an amount of Rs. 37,057,076 plus taxes in comply with directions given by the Secretary to the Ministry of Energy. Accordingly, CPSTL has written off total of Rs. 43,458,458 from the receivable amounts of LIOC as at 31st December 2020. Remaining outstanding disputes of Rs. 3,308,922 with LIOC resolve during the year 2021.	Appropriate actions should be taken to settle all unreconciled balances.
(iii)	Differences between the amounts shown in the General Ledger of the Company and the related party disclosures, in relation to CPC, in the financial statements (Note No. 19) of the Company amounting to Rs. 70.87 million and Rs. 374.69 million were observed for the year ended 31 December 2020 and 2019 respectively.	There was no difference between the balances for the said period.	Appropriate actions should be taken to correct unreconciled balances.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED/12 of 2 June 2003, Guidelines for Good Governance			
(i) Guideline 4.2.2	Monthly performance statement in financial and physical terms, operating statement for the month, cash flow statement for the month, liquidity position and borrowings, procurement of material, especially Non - current assets purchased during the month and statement on Human Resources including cadre positions, new recruitments etc, had not been tabled regularly at each monthly board meeting.	Monthly management accounts including Sales Performance, Income statement, Financial position, Cash flow statements, and Liquidity position, Details of intercompany balance out standings, Cadre positions & Over time details have been submitted to the Board of Directors meeting held during the year 2020.	The company should comply with the relevant Guideline.
(ii) Guideline 5.2.2(b)	Approval of the Ministry and the concurrence of the Department of Public Enterprises, General Treasury had not been obtained for the capital expenditure exceeded the amount of Rs. 10 million.	All major capital development projects initiated by Engineering department will be carried after detail evaluation of feasible study and prior approval/consent given by line Ministry, CPC & LIOC. CPSTL follow the Government Tender Procedure when award of all types of capital projects as per the rules and regulations stipulated by the Government Procurement Guidelines.	The company should comply with the Guideline

		CPSTL Board of directors approval will be obtained on all capital development projects, where representation from Treasury, Ministry, CPC & LIOC, director members were nominated to the Board of Directors of CPSTL to take concurrent approval from the respective agencies.	
(iii) Guideline 9.2	A proper organization Chart including the approved cadre had not been prepared and registered with the Department of Public Enterprises, General Treasury. Further, in the event of creation of a new cadre, or instances where there is excess cadre, the Company had not taken action in consultation with the Department of Public Enterprises, General Treasury.	The cadre approved by the Board of Directors for 2016-2021 has been submitted to the Department of Public Enterprises by our letter Rf. DGM (HR-07) dated 22nd July 2016 which has been endorsed and received by the PED. However, we have not received any document to say that it has been approved or not. After introducing the new cadre, we have not created any new cadre positions.	The company should comply with the Guideline
(iv) Guideline 9.3	The Company had not taken appropriate actions to prepare a scheme of recruitment and promotion (SORAP) with the approval of the Board of Directors, and to get the approval from the Ministry with the concurrence of the Department of Public Enterprise, General Treasury.	At present CPSTL apply the same Scheme of Recruitment & Promotions (SORAP) prepared by CPC. Action has been taken to review the SORAP for Executive Grades as a preliminary stage and to obtain the approval of the Board of Directors for B and C Grades will be reviewed in future and will obtain the approval of the Board of Directors, Ministry and Department of Public Enterprises, General Treasury.	The company should comply with the Guideline

(v)	Guideline 9.10	Approvals from the Secretary to the Treasury had not been obtained by the Company for the appointment of contract basis employees. There were 30 employees recruited on contract basis at the end of the year under review.	These 29 contract employees have been recruited to CPSTL prior to 2019. At present Board has restricted contract recruitments to the Company. As per the Public Administration Circular, the Company has obtained Treasury approval and absorbed these contract employees into permanent cadre.	The company should comply with the Guidelines
(vi)	Guideline 9.12	Approval from the Department of Public Enterprises, General Treasury had not been obtained for the welfare scheme adopted by the Company. However, an amount of Rs. 222.28 million had been paid as staff welfare expenses during the year under review by the Company.	Company provides wide range of welfare schemes to its employees in par with the CPC as per the CUF agreement signed in the year 2003. These facilities have been enjoyed by CPSTL employees during the last 18 years period. Action will be taken to obtain Treasury approval in the future.	The company should comply with the Guidelines
(b)	Government Procurement Guidelines - 2006	Tender procedures had not been followed in selecting outside transporters (Bowsers), and also, the approval of the Board had not been obtained for this.	Transport rates are decided by CPC and payments made to hired bowsers are reimbursed by CPC& LIOC. There is no formal procedure for selection of hired bowsers as pre-determined rates are used for payments. Management has decided to float a tender to call for competitive bids to award transport of bulk fuel for selected deliveries as a pilot project. Implementation of above decision was on hold due to fluctuation in the demand for fuel during the pandemic period.	The company should comply with the Guidelines.
(c)	Finance Circular No. 124 of 24 October 1997 of the Ministry of	5 officers had been assigned for cover up duties in vacant posts for more than 3 months	All temporary acting posts given due to retirements and vacant positions have been advertised and vacancies have	The company should comply with the Guidelines.

Finance and Planning	at the end of the year under review in contrary to such provision.	been filled during the year 2021 except for Stores & Laboratory functions which have already been internally and externally advertised and interviews are scheduled to be held.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a profit amounted to Rs. 2,136 million and the corresponding profit in the preceding year was amounted to Rs. 1,305 million. Therefore, the improvement of the financial result of the year under review was amounting to Rs. 831 million. The main reasons for the increase were the decrease of Administrative Expenses and Tax expenses in the year under review.

2.2 Trend Analysis of major Income and Expenditure items

The operations of the Company had resulted in a markup (Gross Profit/Direct Cost) of 77.72 per cent for the year under review thus indicating a decrease of 1.06 per cent as compared with the markup of 78.78 per cent in the preceding year. Similarly, the Gross Profit for the year under review had decreased by Rs. 826 million or 12.22 per cent as compared with the corresponding Gross Profit of Rs. 6,759 million in the preceding year. This decrease is summarized and shown below.

Description	**For the Year ended 31 December**		**Variance**	
	2020	**2019**	**Favorable/ (Adverse)**	**Percentage**
	Rs. Million	Rs. Million	Rs. Million	
Revenue	13,568	15,340	(1,772)	11.55
Direct Cost	7,634	8,580	946	11.03
Gross Profit	5,933	6,760	826	12.22
Other Income	573	852	279	32.75
Other Operating Expense	12	709	697	98.31
Administration Expense	4,463	4,937	474	9.60
Operating Profit	2,032	1,966	66	3.36
Finance Income	309	323	(14)	4.33
Finance Expenses	-	-	-	-
Profit/(Loss) Before Income Tax	2,341	2,289	52	2.27

2.3 Ratio Analysis

According to the information made available, some important accounting ratios of the Company for the year under review and the preceding year are given below.

Ratios	2020	2019
Profitability Ratios		
Gross Profit Ratio (GP) (%)	43.73	44.07
Operating Profit Ratio (%)	14.98	12.82
Net Profit/ (Loss) Ratio (NP) (%)	15.74	8.51
Liquidity Ratios		
Current Assets Ratio (Number of times)	8.5:1	6.9:1
Quick Assets Ratio (Number of times)	8.13:1	6.6:1
Working Capital (Rs. million)	13,241	11,784
Investment Ratio		
Return on Assets (ROA) (%)	7.14	7.26

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the Section 03 of the Settlement Agreement dated 05 January 2007 between the Government of Sri Lanka and LIOC, it was restricted to deliver petroleum products by LIOC from its China Bay installation to a maximum 5 per cent of the Country's throughput of petroleum products and CPC to a maximum 5 per cent excluding deliveries from Sapugaskanda Refinery. However, a regular process had not been established to monitor the compliance of above	After formation of CPSTL in year 2003. LIOC has commenced its commercial operations in Sri Lanka. Government has appointed Public Utilities Commission of Sri Lanka (PUCSL) to regulate the Petroleum Industry in Sri Lanka with liberalization of the petroleum industry in Sri Lanka.	A formal process to monitor the compliance of conditions should be established.

	provisions. As a result, there is a possibility of losing considerable amount throughput income to the Company.		
(b)	It was noted that Shareholders Agreement & Share Sales Purchase Agreement for the common user facility between CPC, LIOC and CPSTL was expired on 31 December 2008. However, the Company had not taken any actions to extend the agreement for a further period or to enter into new agreement with participation of all related parties with a proper evaluation and approval of the Board. As a result, the pricing formula used for the purpose of determining the throughput charges, transport charges including slab recoveries with the agreements of all the related parties had not been revised since 2011.	At present due to the absence of PUCSL regulatory mechanism to regulate the petroleum industry in Sri Lanka. Hon. Minister of Energy will act as the regulator to regulate the petroleum industry related matters.	
(c)	Even though a proper agreement should be maintained between the parties who provide any support services to an organization for smooth running of the business and minimizing the cost, any agreement or even a Memorandum of understanding (MOU) had not been entered into with CPC and LIOC covering all the related business activities. As a result, procedures, roles and responsibilities of each party were not properly defined.	Accordingly, we have requested from Hon. Minister and Secretary to the Ministry of Energy to take necessary actions to sign an agreement with CPC/CPSTL and CPSTL/LIOC to streamline the Operational, Financial requirements of the CPSTL to function as the Common User Facility service provider to CPC & CPSTL.	
(d)	Even it has been continuously iterated in previous audit report, it was observed that a written	CPSTL has already prepared following procedure manuals. 1. Action has been taken to review	Actions should be taken to properly establish and implement procedure

procedure manual is not available showing the controls that are in place to prevent and detect internal control weaknesses or any possible errors and irregularities that could occur. It is important and beneficial to the Company to keep a track record of controls in place for each process of the Company to ensure that the management prescribed/designed process is operating without exceptions. Further, once a procedure manual is designed it should be periodically evaluated at reasonable intervals to ensure its relevance.	and approve the currently available procedure manuals at finance department. (i) Payment Procedure, (ii) Travel Procedure, (iii)Salary procedure 2. Implementation of Government Procurement Manual with the approval of Board. 3. Internal Audit Manual 4. Offshore Operational Procedure Manual. 5. HR procedure manual to be implemented after it was implemented at CPC. 6. Training Manual. 7. Bulk Movement & Bulk Petroleum Products Operations Standard Operational Manual pending Board approval. 8. Laboratory has obtained ISO 17025 standard certification during the year 2019. IT department has developed Internet Policy, User access policy, Software development policy, email policy, hardware maintenance policy, etc.	manuals with required approval and continuously update.

3.2 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
(a) According to the information made available it was observed that, a proper feasibility study for incorporating capital projects to the annual budget in terms of Guideline 5.2.2 of Public Enterprises Circular No. PED/12 dated 02 June 2003 (Guidelines for Good Governance), had not been conducted.	Though the feasibility studies haven't been presented as reports, the projects were initiated and carried out after analyzing the feasible conditions of the appropriate requirements. Such analyses were included in the Chairman Approval Papers and Board Papers. However, feasibility report will be submitted for the future projects from 2021 as per Guideline 5.2.2 of Public Enterprises Circular No. PED/12 of 02 June 2003.	The company should comply with the Guideline.

(b)	According to the annual carried forward budget for the year under review, 52 capital projects amounting to Rs. 3,662,808,733 had been carried forward to the year 2020. However, information regarding financial progress of such projects as at end of the year under review was not received to the audit. Further, information on physical progress of 26 projects of them was also not received. Therefore, there was a doubt in audit about the commencement and completion of such projects.	Physical progress of 22 projects was submitted by Engineering Function.	Proper and updated records of Capital projects should be maintained by the Company.
(c)	It was observed that considerable delays in completion of 33 projects under the carried forward budget for the year 2020 of the Company. Out of them, some projects had been commenced in the year 2015.	Some jobs are started in 2015 but needed to be attended stage wise due to operational requirements. On the other hand, some jobs were affected by poor performance of the contractors, and appropriate actions were taken as per the Conditions of Contract. Progress of some projects was further affected due to COVID-19.	Appropriate actions should be taken to proceed the delayed projects.

3.3 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
In contrary to Circular instructions, particularly, the Public Enterprises Circular No. PED/12 dated 02 June 2003 on Public Enterprise Guidelines for Good Governance, Letters of No. CSA/PI/40 date 04 January 2006 and No. CS/1/17/1 dated 14 May 2010 issued by His Excellency the President, and the Public Enterprises Circular No. 21 dated 08 January 2004, the Company had released 05 vehicles	1. KV- 4078 Vehicle was released for the use of Ministry of Energy on request of Secretary with the approval of Chairman / Managing Director subject to the approval of treasury. 2. KI – 0786 Vehicle was released for the use of Board Member/ MD CPC on request of Chairman CPC with the approval of Chairman/ MD CPSTL.	The company should comply with the Circular instructions.

(including 3 vehicles for Trade Unions), and 01 person, whose remuneration and other allowances were incurred by the Company during the year 2020.	3. PH -3385 This vehicle is released for the use of trade union activates of SLNSS with the approval of Ministry Secretary (former) and Chairman / Managing Director CPSTL (former and Present). 4. PH – 7530 5. KF – 5256 These two vehicles are used by Trade Union Leaders without proper approval. They were repeatedly advised to submit proper approval both written and verbal forms but no response from them up to date.	

3.4 Human Resources Management

Audit Issue	**Management Comment**	**Recommendation**
Out of the approved cadre of 3,249 posts of the Company, 746 post or 22.96 per cent were in vacant as at 31 December 2020. Out of that, 58 posts or 8 per cent were in senior staff level including, Deputy Engineering Manager (Mechanical), Deputy General Manager (Finance), Deputy Manager Operations (BM & BP), Deputy General Manager Operations and Deputy General Manager (Eng. SS) etc. However, it was observed that 1,148 persons had been recruited out of approved cadre.	Filling up of vacancies during the last three years were delayed mainly due to General Elections in 2019 & 2020 and then due to pandemic lockdown related issues during 2020 & 2021. (i) During the period we had issued internal advertisements for 154 posts and for 95 out of these 150 posts interview processes were completed resulting 62% of completion rate in filling vacancies. (ii) Most of the senior positions referred to in the query have already been filled. However, we still have 55 no's of vacancies in A1- A7 (14 in senior positions and 41 in junior executive) grades and interview for most of these post are to be held within next two months. (iii) Interviews for almost all the external recruitments are unable to be processed and held up due to pandemic lockdown. (iv) Present actual strength is 2693 while the approved cadre position is 3249. (v) We had 232 no's of vacancies created	The cadre of the Company should be critically re-evaluated and decided the appropriate cadre levels for efficient and effective operations of the Company.

due to separation (like retirement, death, etc.) during 2020 (132 nos.) and 2021 (100 nos. up to 27.09.2021). This no. adds to the vacancy positions every year.

(vi) It is further noted that the no. 1148 outside of the cadre (additional cadre) is not due to routine recruitment process but rather due to mismatching of the designation or grade in the approved cadre. This anomaly has been created over the period of time due to the following reasons:

a. Reduction of the no. of cadre positions in the cadre review (e.g. In 2016 there was a 10% reduction in the no. of cadre positions)

b. Promotion by the Cabinet of Ministers on Political Victimization Process since many of these promotions had to be made on super numerical basis.

c. Some established automatic promotions, like promotions on reaching 10 of unblemished service in the same grade, promotions for retiring employees on 30 years of service etc.

vii However, it is noteworthy that we match the closest positions of these additional cadre with that of the approved cadre in counting the no. of vacancies and avoid filling those vacancies since the duties referred are obtained from the personnel of additional cadre.

It is also noted that filling the vacancies is a continuous process and we maintain the minimum possible staff in each of the Functions and vacancies are filled mainly on the requirements of each function.

3.5 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
(a.) A formal system for allocation of vehicles and fuel allowance or usage for officers had not been established and maintained by the Company. According to the information made available to the audit, vehicles had been assigned to unauthorized persons/parties without proper approvals, and an instance was observed that more than one vehicle had been assigned for one officer. Records related to the vehicle running had not been properly maintained and closely monitored by the Company, such as keeping vehicles running reports without authorized, unavailability of fuel usage of vehicles, poor updating of running reports in the relevant files, etc. Considerable differences were observed in the details shown in the fuel coupons and ERP (SAP) system. The information on the running condition, maintenance and other related matters of the vehicles could not be verified in audit due to unavailability of separate logs books (driving records) for each vehicle. Therefore, it was observed that the internal control over the Vehicle administration, maintenance and fuel usage of the Company is not up to the standard and not comply with general procedure of the Governments.	A formal system for allocation of vehicles and fuel allowance or usage for officers had not been established and maintained by the Company. The Company has stipulated policy for assign vehicles for the officers. a) All DGMs are allocated a company vehicle with 140 liters of fuel allowance b) HOFs are allocated a company vehicle with 120 liters of fuel allowance c) If HOF use their own vehicle for the official duties they are entitled for Rs. 50,000 vehicle allowance in addition to 120 liters fuel allowance d) Dy. Mangers are entitled only for 100 liters of fuel allowance no vehicle provided e) Fuel allowances are added to officers' monthly salary up to their respective limit as per the present fuel price. Vehicles had been assigned to unauthorized persons/ parties without proper approvals and an instance was observed more than one vehicle had been assigned for one officer, PH- 7530 and KF-5256 are used by trade union leaders without proper approval. No officer use 02 vehicles in one instance. However, one standby vehicles is allocated for the use of Chairman/ MD as and when necessary.	A formal system for vehicle administration within the Company should be established.

		Records over vehicle running had not been properly maintained and closely monitors by the company such as keeping vehicles running reports without authorized	
(b.)	According to the fixed assets register, 17 motor vehicles had been condemned by the Company up to the end of the year under review. However, details relating to the actions taken by the Company with regard to the condemned vehicles were not made available to audit.	No comment	Appropriate actions should be taken for condemned vehicles.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
As per the Guideline 5.1.1 of Public Enterprises Circular No. PED/12 of 2 June 2003 - Guidelines for Good Governance, the Company had not prepared a Corporate plan and presented to audit in in line with this provision.	Tender for preparation of Corporate Plan was awarded in year 2018 and Draft Corporate Plan was submitted by Consultant M/s. Ernst & Young in October 2018. After change of government in 2020 the scope of the preparation of Corporate Plan have been changed and revised Corporate plan prepared in year 2021.	The company should comply with the Guideline.